



City of Bay St. Louis

Financial Manual

June 2016

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I. INTRODUCTION

A. General

The City of Bay St. Louis, Mississippi (the City) has developed this manual to document the accounting policies and procedures currently utilized by employees in executing the day-to-day operations of the City. The purpose of this manual is to ensure that finances are managed responsibly, that assets are appropriately safeguarded, and that the financial statements are presented in conformity with generally accepted accounting principles.

The City was originally incorporated January 21, 1818, under the laws of the State of Mississippi. The City operates under a Mayor-Council form of Government. The following services are provided by the City: public safety (police, fire and protection inspection), street maintenance, sanitation, water, sewer and gas services, cultural and recreational services, public improvements, planning and zoning, and general administrative services.

B. Finance Department

The Finance Department is headed by the Comptroller and is the primary Department in charge of financial services for the City. Personnel in the Finance Department handle such duties as financial accounting and reporting, budget preparation and reporting, receipt and disbursement of funds, debt management, and payroll management.

The Finance Department has been charged by the Mayor to establish, document, and evaluate the internal control structure of the City to assure that assets are protected from loss, abuse and misuse and to ensure the integrity of the financial data available to compile the financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management.

C. Functions of the Government

The City of Bay St. Louis is comprised of eleven distinct departments with the Mayor and the Deputy Municipal Clerk serving as the executive authority. These departments are responsible for performing the various functions of the City government. The departments consist of the following:

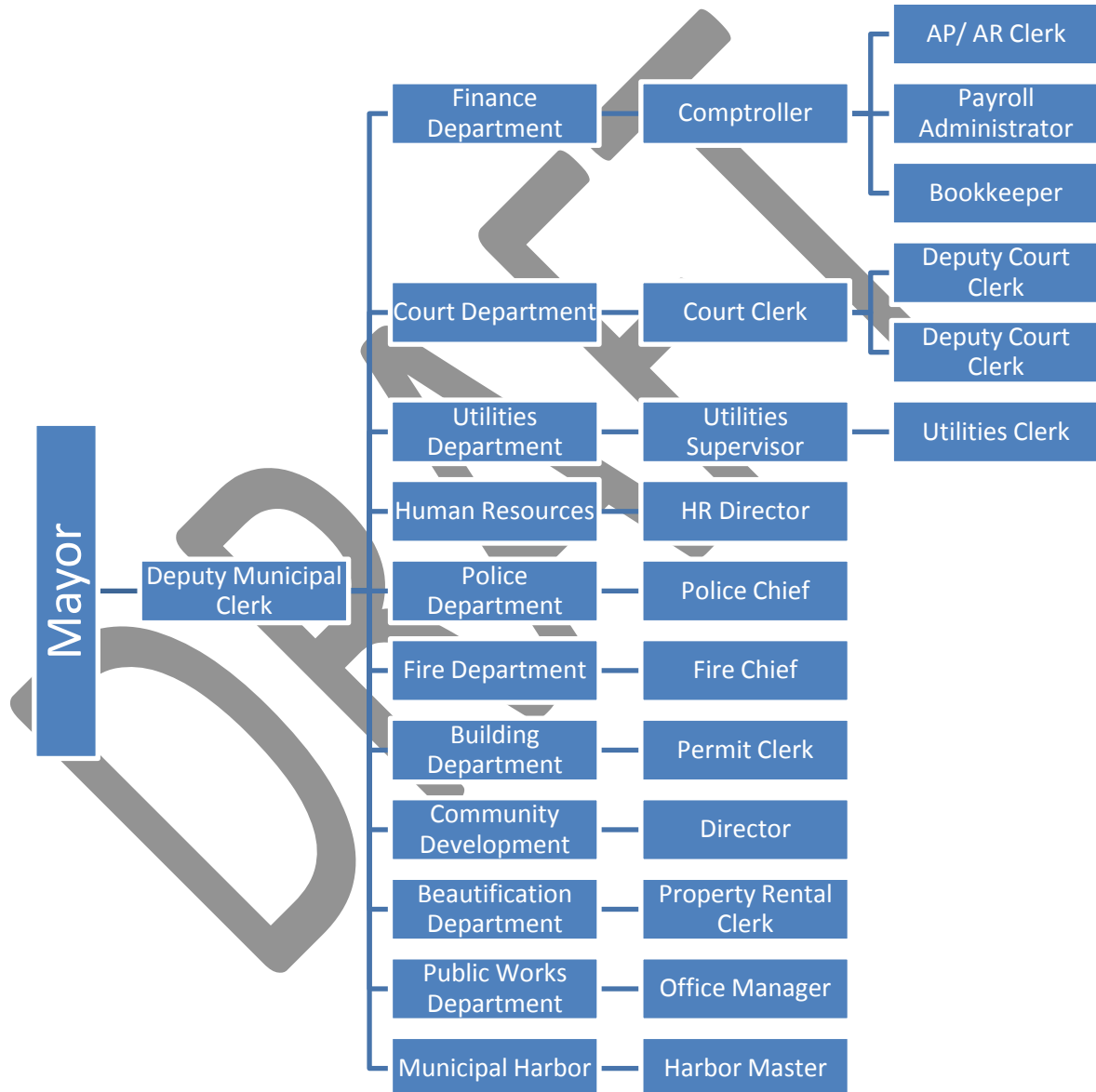
- | | | |
|-------------------|-------------------------|------------------------|
| • Court Dept. | • Finance Dept. | • Utilities Dept. |
| • Human Resources | • Police Dept. | • Fire Dept. |
| • Building Dept. | • Community Development | • Beautification Dept. |
| • Public Works | • Municipal Harbor | |

The City's revenues utilized for operations originate predominantly through taxes collected by the Hancock County Tax Collector and remitted monthly to the Finance Department. The City also recognizes monthly gaming revenues and any grants received

from Federal sources. Remaining revenues are received by fines and fees generated by various departments through their normal course of business.

D. Organization Chart

Each department is individually supervised by a department head that has unique accounting responsibilities as well as general operational responsibilities required of that department. The following diagram illustrates the personnel from each department involved in the accounting functions of the City.



II. FUND ACCOUNTING

The accounts of the City are organized and operated on the basis of funds and account groups. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The City maintains two major types of funds: governmental funds and proprietary funds (business-type activities).

A. Governmental Funds

The City utilizes five governmental funds: the general fund, the Community Development Block Grant (CDBG) Fund, the Municipal Reserve Fund, the Disaster Fund, and the Debt Service Fund. The General Fund and the CDBG Fund are considered major funds for financial reporting.

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. Additionally, general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The General Fund records the general transactions of the City and records spending from the City Council, the court system, Mayor's office, City Hall, police and fire departments, building department, public works, and parks and property maintenance.

The CDBG Grant Fund was set up as a special revenue fund that accounts for all of the revenues and expenditures related to funds provided by the Mississippi Development Authority as part of the CDBG – Entitlement Grants for the rebuilding and recovery efforts from Hurricane Katrina.

The Municipal Reserve Fund is a fund to hold money in reserve for other funds for a fiscal year's unanticipated expenditures which were otherwise not budgeted. These funds may only be spent by City Council order for reserve purposes; and as limited by the source of the reserve fund revenue. Interest earned on fund investments must be credited to the reserve fund.

The Debt Service Fund is utilized to pay the City's debt. There are four types of debt service funds: utilities, Katrina, vehicles, and leases – equipment.

The Disaster Fund is an additional reserve fund that the City maintains in order to execute its civic duties in time of natural disasters. The City Council has control of this fund and will release money as needed.

B. Proprietary Funds – Business-type Activities

The City maintains two proprietary funds, which are accounted for using economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flows. The two proprietary funds are the Utility Fund and the Harbor Fund.

The Utility Fund is used to account for the provision of water, sewer, and gas services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water, sewer, and gas systems and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All utility service costs are financed through charges to utility customers with rates reviewed regularly and adjusted as necessary to ensure integrity of the funds.

The Harbor Fund is accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing boat slips, utilities, and fuel to residents and visitors of the City. These services will be financed or recovered primarily through user charges in the form of rental receipts and the sale of fuel to boaters.

III. ACCOUNTING SYSTEMS

The City utilizes Tyler Technologies Incode product suite to manage the finances of the City. Incode is an enterprise resource planning (ERP) software that the City to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources. The City currently uses the following modules within Incode:

- a. General Ledger
- b. Purchasing/Accounts Payable
- c. Utility
- d. Payroll

In addition to providing the software for the City's management and accounting, the City also utilizes Incode's data recovery system. All information is backed up nightly to a third party server managed remotely by Incode. This will allow City officials to remotely log in to any terminal and resume operations should a disaster occur.

IV. GENERAL LEDGER

A. Chart of Accounts

The City's chart of accounts structure provides an organized way of tracking required and necessary financial information to internal users, outside granting agencies, and other interested parties.

The City's account code consists of the following segments of numbers:

- a. **Segment 1 – Fund** – The fund is the City's highest measure of financial reporting. Funds are established either by Statutory Authority, Bond Covenants, or by the City for the sole purpose of separately tracking resources. The City uses a 3-digit fund code and the first digit identifies the fund type. The following is an illustration of fund codes:

- Fund 001 – represents the City's General Fund
- Funds beginning with “0” represent general fund types
- Funds beginning with “1” represent special revenue funds
- Funds beginning with “2” represent debt service funds
- Funds beginning with “3” represent capital projects
- Funds beginning with “4” represent enterprise funds (proprietary or business type) funds
- Funds beginning with “5” represent internal service funds
- Funds beginning with “6” are agency and trust funds
- Funds beginning with “7” are reserved for future expansion of the general ledger structure
- Funds beginning with “8” represent general long term debt funds
- Funds beginning with “9” represent capital asset funds

b. Segment 2 – Function – The function code is important in that it provides a way in which to group several departments together that provide the same function for the City. An example would be Police and Fire protection. Although these are two separate and distinct departments, they contain a common function code of 200 which represents the City's Public Safety Function. Listed below are the City's function codes:

- Function 000 – Balance Sheet, Revenue & Debt Service
- Function 100 – General Government
- Function 200 – Public Safety
- Function 300 – Public Works
- Function 302 – Culture and Recreation
- Function 700 – Utility Operations
- Function 900 – Interfund/Other

c. Segment 3 – Department – The department code is important in that it establishes a way to track cost based upon level of responsibility. Departments typically fall under a single director (i.e. public works department falls under the supervision and control of the Public Works Director) and this individual is responsible for ensuring that departmental budgets are not exceeded from that amount approved by the governing authority. Note: The first digit of this 3-digit number relates to the function code. Listed below are a few of the City's department codes. Note that this list is not all inclusive.

- 1) General Government Departments
 - (a) 100 – Legislative (Council)
 - (b) 102 – Judicial (Courts)
 - (c) 120 – Administration and Finance
 - (d) 150 – Building Department (and Planning and Zoning)

- 2) Public Safety Departments
 - (a) 200 – Police
 - (b) 260 – Fire
- 3) Public Works and Leisure Services Departments
 - (a) 300 – Building Maintenance
 - (b) 302 – Leisure Services
- 4) Water and Sewer Departments
 - (a) 700 – Water and Sewer Operations

d. **Segment 11 – Object** – This is the City’s lowest level of financial reporting. This consists of a 6 digit code with the first two digits referred to as the character code. This code is used to track very specific financial information such as wages and salaries, overtime, employer payroll taxes, office supplies, gasoline, professional fees, and the list continues. The important thing to remember about the object code is the first two digits, a.k.a. character code, denote the appropriate category. Examples of character codes are as listed below. Note that this list is not all inclusive.

- Cash and Cash Equivalents – 000
- Accounts Receivable – 030
- Prepaid Expenses – 046
- O/P Court – 047
- Intergovernmental – 050
- Deferred Inflows of Property Tax – 099
- Accounts Payables/Payables – 100
- Court Payables – 101
- Deferred Revenue – 133
- Payroll Payables – 150 to 151
- Miscellaneous Payables – 152 to 157
- Fund Equity – 170 to 180
- Property Taxes – 201 to 205
- Franchise Fees and Other Taxes – 206 to 211
- Licenses and Permits – 220 to 228
- Fees/Fines – 230 to 233
- Gaming Revenue – 234
- Grants – 237 to 279
- Other Income – 300 to 399
- Personnel – 400 to 499
- Contractual Services – 500 to 599
- Supplies – 600 to 699
- Debt Service – 800 to 899
- Capital Outlay – 900 to 999

B. Accounting Corrections

Accounting corrections are made by the Finance Department. Corrections originate as a result of corrections of errors in posting transactions, transferring amounts from one fund to another, or posting transactions that occur outside the accounting system, such as bank fees. The entries into the general ledger software ("journal entries") are initiated by the Comptroller in Incode. All documentation prepared to support the journal entries are maintained with a copy of the entry. Each entry includes a digital signature that validates the transaction. There is currently no review over journal entries.

V. INTERNAL CONTROL STRUCTURE

Internal control procedures are a vital part of the City's financial and business processes. The financial and business processes of the City are to be developed and operated under a system of internal control that:

- Safeguards City assets
- Checks the accuracy and reliability of accounting data
- Promotes operational efficiency and effectiveness
- Protects City personnel and constituents
- Ensures compliance with applicable policies and regulations
- Ensures adherence to prescribed managerial policies

A. Development and Implementation

Administrators, who have the responsibility for developing, operating, and supervising financial systems, also have the responsibility for developing and implementing adequate internal control systems. All internal control procedures are subject to the review of the Comptroller.

All internal control systems are to conform to generally accepted characteristics. These characteristics are:

- a. Organizational plans that provide appropriate segregation of functional responsibilities.
- b. Authorization and record-keeping procedures that give reasonable accounting control over assets, liabilities, revenues, expenses, and other changes in the balance of funds.
- c. Sound practices that insure a high degree of compliance with approved authorization and record-keeping procedures.
- d. Employees with capabilities sufficient to execute their prescribed responsibilities.

B. Organizational Plan

Responsibility, authority, operating policies, and procedures are to be clearly defined. Operating, custodial, and accounting functions are to be independent of each other.

Most transactions originate inside the Finance Department of the City. They provide a separation of responsibilities that should be fully utilized in designing internal control system safeguards. The safeguards are designed to discourage or disclose fraudulent schemes and errors. These safeguards are also designed to circumvent errors and negligence on the part of the City and City personnel. Through checkpoints in the day-to-day operations and through regular reports produced, areas of concern and weaknesses should be highlighted and identified so prompt and corrective action is taken.

C. Authorization and Record Keeping

Appropriate records, forms, and reports are to be maintained, as well as a logical flow of record-keeping and approval procedures. Appropriate records include:

- a. Control accounts and subsidiary ledgers
- b. Meaningful classification of transactions
- c. Documented accountability where it serves a useful purpose
- d. Clearly defined segregation of duty flowcharts

Policies and instructions regarding these operations are to be documented in procedural write-ups or manuals.

D. Sound Practices

Practices adopted should enhance the integrity of authorizations, recordings, and custody. Sound practices include a continuous review or internal check of routine transactions, whereby the work of one person is proved independent of or complementary to the work of another. There should be a division of duties and responsibilities so no person has complete control over all aspects of a financial transaction.

E. Guidelines for Internal Control of Assets

Following are general guidelines for safeguarding assets:

- a. Assign responsibility and accountability for control of City assets to two or more employees (for example, responsibility for ordering, receiving, and inventorying assets should be separated so that the same employee does not have all these responsibilities).
- b. Develop and distribute detailed unit operating procedures that implement and are consistent with City policy and procedures.
- c. Ensure that individual employees are aware of the controls, boundaries, procedures, and practices.
- d. Regularly verify the continued maintenance of established controls and remedy violations through prompt, effective, and fair actions.

F. Employee Responsibilities

A properly functioning internal control system depends on the selection of employees and directors with ability and experience. The operating personnel must be capable of carrying out prescribed procedures efficiently and economically. Employees are to be trained in the position they will perform, and the necessity of adhering to outlined procedures and controls should be stressed to them. The employee's work should be carefully reviewed to determine if procedures are being followed. If not, corrective measures should be taken to correct the problems.

G. Exception from Control Procedures

All internal controls are to be considered in light of their economic utility, practicability, and protection of personnel. In instances where the cost of protection would far outweigh possible losses, or proposed controls would cause gross inefficiencies, it may be decided that certain controls are not feasible and another alternative may be more advisable.

H. Review

Responsibility does not end with the implementation of control procedures initially considered necessary. The system of internal control must be under constant review by administrators and supervisors at all levels to determine that:

- a. Prescribed policies are being interpreted properly and are being carried out;
- b. Changes in operating conditions have not made the procedures cumbersome, obsolete or inadequate; and
- c. Corrective measures are taken promptly when system breakdowns arise.

VI. SIGNIFICANT ACCOUNTING POLICIES

The formal accounting and reporting policies of the City relating to the funds included in the annual combined financial statements and associated notes conform to generally accepted accounting principles in the United States of America (GAAP), applicable to state and local governments. Accounting policies and principles generally accepted in the United States of America for state and local governments include those policies and principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board, when applicable. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies of the city are described in detail below.

A. Basis of Accounting

The basis of accounting refers to when and how revenues and expenditures are recognized and recorded in the financial statement accounts. Basis of accounting also relates to the timing of the significant measurements made, regardless of the measurement focus applied.

Measurement Focus

Measurement focus refers to what information and assertions are expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering which resources are measured and when the effects of transactions and events involving those resources are recognized.

Government–Wide Financial Statements

The government-wide financial statements include a statement of net position and a statement of activities. These statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real and personal property taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business privilege, and income taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Major revenue sources that are susceptible to accrual include: property taxes, franchise taxes, sales taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received by the City.

Program revenue that is reported in the government-wide financial statements includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program specific revenues. Accordingly, general revenues include all taxes.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary and continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services an example being utility services. Principal operating expenses are the costs of providing goods or services and include personnel costs, administrative expenses, and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Financial Statements

Governmental fund financial statements provide a more detailed level of financial information and are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within 60 days of the end of the current fiscal period. Imposed nonexchange revenues such as real and personal property taxes are recognized when the enforceable legal claim arises and the resources are

available. Derived tax revenues, such as wage, business privilege, and income taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are recognized only when cash is received by the City because they are not measurable until that time.

Expenditures are generally recorded when a liability is incurred as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, those expenditures may be accrued if they are to be liquidated with available resources.

B. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management and city officials to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

The City's cash and cash equivalents primarily considered to be cash on hand, amounts held in demand deposits, all certificates of deposits and cash equivalents, which are short-term highly liquid investments that are readily convertible into cash (including restricted assets) generally three months or less.

D. Interfund Transactions and Balances

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available, expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the

noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All receivables are shown net of an allowance for uncollectible. The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account as determined by experience.

E. Inventory

The City’s Utility Fund operation is required to maintain an inventory of stored natural gas with its supplier. The City also maintains inventory of gasoline or diesel within the Harbor Fund for retail purchase to boaters. Both gas and fuel inventories are valued at cost using the first in/first out (FIFO) method. Inventories of materials and supplies are accounted for using the consumption method. Under the consumption method, inventories are recorded as expenditures when they are used with significant amounts on hand reported on the balance sheet at average cost. In governmental funds, reported inventories do not represent available spendable resources and are, therefore, equally offset by a non-spendable fund balance designation.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the governmental funds represent unspent bond proceeds, amounts restricted per bond covenants, or amounts restricted by grantors and contributors. Restricted assets in the enterprise fund represent utility customer deposits which are subject to refund upon termination of utility services. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

G. Risk Management

In compliance with the Tort Claims Act, Chapter 46 of Title 11 and as amended by the 1993 Legislature, Section 11-46-17(3) requires all municipalities from and after October 1, 1993, to obtain such policies of insurance, establish self-insurance reserves, or provide a combination of insurance and reserves necessary to cover all risks of claims and suits for which a municipality may be liable under the Tort Claims Act.

In order to assure compliance with the Tort Claims Act, House Bill 417 established the Mississippi Tort Claims Board. Municipalities are required to submit plans of insurance, self-insurance and or reserves to the Tort Claims Board for approval.

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools:

- a. Self-Insurance – Workers Compensation Fund

The City is one of approximately 250 members in the Mississippi Municipal Workers' Compensation Group, Inc. This nonprofit corporation is a self-insurance workers' compensation fund organized under the nonprofit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection up to \$1,000,000. Members are jointly and severally liable for the obligations for the group.

b. Self-Insurance Liability Fund

The City is one of approximately 250 members in the Mississippi Municipal Liability Plan. The plan is a private nonprofit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members up to \$500,000 and \$50,000 per occurrence, respectively. The plan is totally self-insured with claims and expenses paid out of the premiums, and the members are jointly and severally liable for any claims and expenditures beyond the premium base.

The City records an estimated liability for employee health care, workers' compensation, torts, and other claims against the City. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. The City's third-party claims administrator develops the City's reserves, including estimates for claims incurred but not reported.

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The City does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

VII. BUDGET PROCESS

A. Budget Formulation

The City utilizes a formal budget process to manage its receipts and expenditures during the fiscal year. The annual budget is the pivotal document in the City's fiscal operations each year. Mississippi Code Sections 21-35-23 states that revenues which are legally receipted (cash basis) from October 1 through September 30 may be credited to the budget. Expenditures which may be charged to the budget are those which were

legally budgeted, incurred prior to the end of the fiscal year, and disbursed (cash basis) during the fiscal year or within 30 days thereafter; if not paid within this period, they may be budgeted again for payment in the next fiscal year. Expenditures for uncompleted improvements in progress of construction may be charged to the budget at any time.

Funds that require budgeting include funds that receive revenues for the municipality (general fund), proprietary funds, and funds confiscated and forfeited in connection with illegal drug and liquor cases.

The fiscal year of the City of Bay St. Louis shall begin on the first day of October and end on September 30 of the following calendar. The fiscal year will also be established as the accounting and budget year.

Prior to budget planning and formulation, the City receives the estimated revenues from the County. These are revenues that are derived from taxes, licenses and permits, fines and fees, gaming, grants, donations, interest earnings, and other non-major revenue sources. These estimated revenues are then used as the starting point of the City's budget. Estimated revenues set the stage for all subsequent budget work that would need to take place.

All department heads should their budget for the upcoming fiscal year and submit to the Comptroller by June 1. Each department head should begin with last year's beginning budget as a baseline for creating next fiscal year's budget.

Departmental budget requests should be sent to Comptroller for review and inclusion into the proposed budget. Budget requests would need to be submitted to the comptroller in a timely fashion so the budget for individual funds can begin to take form.

State law requires municipal budgets to be adopted by fund, department and purpose.

On or before the 1st day of August of each year, the Comptroller shall submit to the City Council a budget for the ensuing fiscal year and any accompanying and supplemental information to the proposed budget.

The Comptroller will also include a message that explains the budget both in fiscal terms and in terms of the operational work programs. It shall outline the proposed financial policies of the City for the ensuing fiscal year, describe the important features of the budget, indicate any major changes from the current year in financial policies, expenditures, and revenues together with the reasons for such changes, summarize the City's debt position and include such other material as the manager deems desirable.

The budget shall provide a complete financial plan for the fiscal year, and shall be in a workable form and contain such information as required by state law and by the City Council.

The budget and all supporting schedules shall be filed with the City Secretary when submitted to the Council and shall be opened to public inspection by anyone interested.

At the Council meeting at which time the budget is submitted, the Council shall name the date and place of a public hearing and shall cause to be published in the official newspaper of the City the time and place, which will be not less than ten (10) days nor more than thirty (30) days after date of notice. At this hearing, interested citizens may express their opinions concerning items of expenditures, giving their reasons for wishing to increase or decrease any items of expense.

After public hearing, the Council shall analyze the budget, making any additions or deletions which they feel appropriate, and shall, at least ten (10) days prior to the beginning of the next fiscal year, adopt the budget by a favorable majority vote of all members of the Council. Should the Council take no final action on or prior to such day, the budget as submitted by the Comptroller shall be deemed to have been finally adopted by the Council.

On final adoption, the budget shall be in effect for the budget year. Final adoption of the budget by the Council shall constitute the official appropriations as proposed expenditures for the current year and shall constitute the basis of official levy of the property tax as the amount of tax to be assessed and collected for the corresponding tax year. Estimated expenditures will in no case exceed proposed revenue plus cash on hand. Unused appropriations may be transferred to any item required for the same general purpose.

After the budget has been adopted, the Comptroller then manually enters the budget (line by line) into Incode, the City's accounting system. The budget is keyed into Incode as a mechanism to ensure that appropriations, vouchers and expenditures cannot exceed revenues. Keying the budget into Incode also ensures that funds earmarked for a specific purpose cannot be used for another purpose that is not in line with intended use for the funds.

As a control feature, entering the budget into Incode ensures that purchase requisitions and other financial obligations can actually be fulfilled. Entering the budget in Incode also ensures that revenues are efficiently and effectively maximized. Incode maintains a running balance of budgeted funds and if a purchase requisition is entered into Incode and the particular account that the requisition has been coded to is over budget, Incode will flag the requisition and it must then be manually overridden and approved by Comptroller or Accounts Receivable/Accounts Payable Clerk. This mechanism allows for the City to appropriately manage the individual line items of the budget and notifies City personnel when amendments to the budget are required. The Comptroller will utilize the budget to actual report monthly to ensure that spending is in line with approved levels.

Keying the budget into Incode does the "legwork" of acting as a bookkeeper for each budgeted fund's balance. Each fund has a budgeted fund balance that is initially set

when the budget has been approved and adopted. This balance should be monitored and tracked throughout the fiscal year to ensure that all municipal funds are accurately accounted for.

Keying the Budget into Incode Logistics

1. After the budget has been approved and adopted, the comptroller then manually keys the budget into Incode. Each line of the budget has a specific control account that is given a set, budgetary balance for the fiscal year.
2. When the budget has been entered into Incode, the budgetary amounts are saved by Incode and used as a bench marker for account activity.
3. During the purchasing process, a requisition must be coded to a particular control account. That control has a specified budgetary balance and no cash disbursements should exceed that balance.
4. If for any reason, the City receives unexpected funds, these funds should be coded to a budgetary control account and the new running balance should be updated. Any subsequent cash disbursements should not exceed new balance.

B. Budgetary Amendments

All budgetary amendments must be presented initially to Comptroller for review. These amendment requests must be very clear as to their purpose, costs and benefits. Once the comptroller reviews the accuracy and coherency of the suggested amendment, the Comptroller presents this amendment to the Mayor and Council. The council is the only governing body in the City that may approve or dismiss the formal request for a budget amendment. The budgetary amendment process is typically initiated when a City department requests more money than what was initially allotted or when a large reclassifications of allotted funds within a department needs to take place. An example of a large reclassification would be moving a material amount of funds from capital acquisitions to salaries. After Council approval, the Comptroller revises the budget to reflect the new changes and an amended budget is ready for review by the Council.

Budget amendments which are within the same department and classification are not required to go before the council and can be handled within the Finance Department at the direction of the department directors and Comptroller.

C. Budgetary Controls

The City maintains specific budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Mayor and City Council. Activities of the general fund, special revenue funds, debt service fund, capital projects funds, and proprietary funds are included in the annual appropriated budget.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by major expenditure classification and requires approval by the City Council; however, equal transfers between line items within a classification may be approved by the departmental director.

For management purposes, project length budgets are prepared for the capital projects fund even though all adopted budgets lapse annually in the State of Mississippi.

The City maintains an encumbrance accounting system as one budgetary control technique. Encumbrances reserve appropriations, which have been obligated through purchase orders or contractual documents. Encumbered amounts lapse at year end; however, they are generally re-appropriated as part of the following year's budget.

D. Budgetary Monitoring

The Comptroller is charged with the primary responsibility for monitoring the fiscal implementation of the approved budget. In addition, the Finance Department will work closely with other departments to inform them of their financial status and of any potential issues that may affect their budgets. The Finance Department may review fiscal issues affecting any part of the City organization. This activity supports the monitoring role and focuses on the protection of City assets and the legal, efficient, and effective use of City resources. The Comptroller will provide City Council with regular reports on the City's finances including a financial report containing budget versus actual revenue and expense information. Individual departments are responsible for monitoring and managing their resources to ensure that the legal and administrative appropriation to the department is not overspent and that all expenditures and uses of City resources are in conformity with City, State, and federal ordinances, statutes, policies, and regulations.

VIII. SOURCES OF REVENUE AND COLLECTION

A. Collection Sites

Revenues are collected by various city departments:

Utility Department

The Utility Department functions as the collection and deposit site for several City activities. These collections may be in the form cash, credit card charges, and checks. These collections are from activities of the Utility Department and the Building Department and Community Hall rentals.

The Utility Department bills monthly utility charges (water, sewer, garbage collection and natural gas) and utility meter deposits. Billing and collection occurs in this Department.

The Building Department handles permits and fees for multiple items. The Permit Clerk initiates billings for numerous permits, inspection fees and business licenses. Permits issued include building, electrical, plumbing, mechanical, contractor and other permits. Privilege licenses are primarily for businesses located in the City. Plan review fees are charged to commercial and residential plans. Other miscellaneous items such as fire inspections and firework permits are also charged. These permits are issued by the Permit

Clerk in the Building Department. These activities are billed by the Building Department and collections for these charges occur in the Utility Department.

Zoning fees are calculated and assessed by the Zoning Administrator in the Building Department. The collections for these charges occur in the Utility Department.

Community Hall rentals contracts are created by a clerk in the Beautification Department and collected in the Utility Department.

The above processes involve postings of Incode sub accounts and subsidiary ledgers. These subsidiary accounts must be validated and closed out each day in order to update and be posted to the City's general ledger. This close and posting process is performed daily by the Accounts Receivable / Payable Clerk in the Finance Department.

Court Department

The Court Department collects fines and court fees and assessments. These fees are billed and collected in the Court Department and deposited and recorded in Incode through the Finance Department on a daily basis. The Finance Department will deposit the funds in the bank and post the transaction to the general ledger.

Harbor Department

The Harbor Department collects slip fees, rents and fees from visiting (transient) boaters. The Harbor Department also collects cash and credit card payments for sales of ice and fuel.

Long term slip fees are billed and collected by the Harbor Master. Long term slip rental billings and subsidiary records are maintained in Incode. The actual collections are given daily to the Finance Department for depositing in the bank and posting to the general ledger thru the daily closeout process. Transient rentals, ice and fuel sales are collected daily by the Harbor Master. These items are submitted to the Finance Department thru a daily sales report by the Harbor Master. The Finance Department will deposit the funds in the bank and post the transaction to the general ledger.

Finance Department

The Finance Department collects lease payments and all revenues that come through the accounting department, such as sales tax, property taxes, gaming tax, franchise taxes, rentals, and other miscellaneous deposits. Property and sales tax charges are not generally controlled by billings from the City, but are handled by either the county or the state. Transfers from these agencies are deposited and posted to the general ledger by the Finance Department. Gaming taxes, franchise taxes, grants and lease revenues are set forth in the executed agreements between the City and the third party. The Finance Department will deposit the funds in the bank and post the transaction to the general ledger.

B. Sources of Revenues and Collection

The City's primary sources of revenue are discussed as follows:

Utility Revenue

The City offers certain utilities to residents through the Utility Department. These utilities include water, sewer treatment, garbage collection and gas. Activities in the Utility Department include administration, operations, and maintenance of the water, sewer and gas systems and billing and collection activities. All utility costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Utility Fund. Rates are determined and approved by the City Council. The classifications of revenue generated through the customer utility bill include water, gas, sewer, waste water, garbage and debt service fees. These services are billed to customers on a monthly basis. Monthly rates for garbage collection and debt service are fixed and set annually by the City Council. Sewer rate charges are fixed for residential customers and vary for commercial customers based on usage. Waste water rates are fixed, but customer charges vary with customer usage. Gas rate charges are set and monitored by the City Council, with fluctuations occurring based on the amount charged by the City's vendor. Any changes to monthly customer rates must first be approved by the City Council. Debt service fees are set at a rate to ensure repayment of bonds initiated to update and repair the City's utility infrastructure. These rates are also set by the City Council and are a fixed rate per customer. Rates are keyed into the Incode system by the Utility Department Supervisor.

The City uses a module within its accounting system, Incode, to account for the transactions associated with the Utility Department. The billing process starts with the manual reading of customers' meters. A meter reader within the Utility Department obtains individual customer meter information electronically by driving by the customer's meter and the reading is electronically obtained in the meter reader's handheld device. This device is synchronized with the Incode system at the end of each day and customer meter amounts are automatically updated in the system. Prior to the actual billing, the Utility Clerk reviews the US Bill Calculation Utility Report for unusual variances. This review may require manual edits to the information, such as the data omitting characters or numbers during the upload process. After follow up and editing with the meter reader, the Utility Clerk will activate the billing calculation of all customer accounts in Incode. The bills are mailed out around the end of each month and are due around the 15th of each month (days may vary due to weekends). Late payment fees are automatically assessed in Incode. Customer accounts are considered delinquent after 10 days and cutoff procedures are initiated when a bill is 60 days delinquent. The Incode system has each customer's contact information and upon original delinquency, the customer is mailed a letter notifying the customer of the delinquency. Prior to actual cutoff, the system calls the number on file in the customer's account and relays an automatic message of cutoff. The Utility Department relies on the functions of the Incode system to monitor its accounts receivable balance and does not utilize any accounts receivable aging reports.

Payments are collected by the Utility Department via receipt at the window in the Mayor's office, mailed to the Utility Department, or auto-drafted from customer banks (Automated Clearing House [ACH] transactions). Three forms of payment are accepted: cash, check, or credit card. A clerk with Utility Department accepts the payment from the customer, enters the payment (and payment method) into Incode, and a receipt is generated from the Incode system with the receipt number, customer identification, date paid and amount. When payment is by check, a check number is entered into the reference line field of Incode. This is also included on the customer's receipt. Checks are then endorsed on the back as "BSL-For Deposit Only". Credit card transactions are received from the customer either in person or on the phone. A utility clerk is required to manually key the credit card information into the City's credit card processing equipment. A receipt is generated and included with the daily batch report. Upon positive confirmation of payment, the credit card receipt information is entered into Incode. ACH transactions are authorized by individual customers who complete an ACH Authorization Form. The monthly charges are automatically withdrawn from customer accounts by the AR/AP Clerk after the bills are generated. These amounts are automatically posted against the customer accounts.

Total receipts are batched daily by the Utility Department. At the end of each day, a clerk completes the daily deposit form and signs off as approver. The daily deposit form shows all receipts for the day by type and is manually calculated by the clerk. There is a cash collection receipts register generated from the system that is reconciled against this report. These documents, along with the cash, checks and credit card receipts, are forwarded to the Finance Department where the Accounts Payable/Accounts Receivable Clerk (AR/AP Clerk) reviews the deposit listing and signs off as approver as she confirms that the daily batch amount, the hand written daily deposit form, and the cash collection receipts register agree. The AP/AR Clerk must then release the batch in Incode, which creates the posting in Incode's general ledger system. The deposit is made at the bank the following day. The deposits are locked nightly in the City's vault until deposit.

Insufficient Funds Fees (NSF) are handled on customer accounts by the AR/AP Clerk. The Incode Utility Fund module has a separate charge code for NSF fees. When the bank notifies the City of the returned check, the AP/AR Clerk will open the customer's account, remove the payment, and add the NSF fee.

There are two terminals utilized by the Utility Department. Each terminal has a cash drawer with \$100 in cash each morning. The cash is utilized to make change when customers pay in cash. The cash drawer is balanced at the end of each day. The accounting system is not currently set up to automatically monitor this, so it is a manual process performed by the utility clerks. A batch cash report is generated from Incode and the clerk reconciles the drawer against this report. Each cash drawer is locked in the City's vault at the end of each day.

Permit and Privilege License Revenue

Permit revenue is derived from building, electrical, plumbing and mechanical permits issued by the City as well as contractor licenses, zoning plan reviews and miscellaneous charges.

The City has adopted ordinances on each type of permit and charge establishing procedures, guidelines and fee schedules for the issuance of the various permits and fees, contractor licenses and zoning fees and rental fees for the Community Hall. The permit fees schedules can be found in the Building Department for permits, on the zoning application for zoning and on the City's website for the Community Hall. Business license fees and charges are set forth on the business license application. When a customer comes to apply for a permit, permit fees are calculated by the Permit Clerk and are reviewed and approved by a sign off process on the back of the application by the Building Inspector. When a contractor or other customer comes in for a zoning request, the zoning fees are determined by the Zoning Administrator and the customer will take the zoning billing to the Utility Department for payment. Community Hall charges and fees are established by the City Council.

Permit fees are to be calculated and collected according to the fee schedule in effect at the time of application. Sometimes contractors and homeowners will pay for the permit in multiple payments or the application may include multiple permits issued to different contractors. A final permit is not issued until the appropriate payment is received. During the application process, a project screen is created in Incode and can contain multiple permits related to a Project. These open permit charges will be collected as the various contractors pick up their job permit. These fees will remain open and unpaid in Incode until the contractor pays the required fee to the Utility Department. The Utility Department issues two receipts to each contractor when the fee is collected and the contractor will return to the Building Department and provide the Building Permit Clerk one of the receipts for issuance of an approved permit. In the Zoning Department, the fees are calculated by hand and the application and fees are not entered into Incode as is the process by the Permit Clerk. The Zoning Administrator currently delivers the zoning charges to the Utility Department. The Utility Department collects the payment, issues the receipt and enters the revenue into Incode which links into the accounting system by means of the Utility Department's Daily Deposit Form (discussed above).

All permits must be obtained from the Building Department before any work is started. Work commencing before permit issuance shall be subject to a penalty of 100% of the usual permit fee in addition to the required permit fee.

A privilege license is a license which all businesses located in Bay St. Louis must obtain from the Building Department prior to opening. Privilege licenses are required to be renewed annually and are based on updated information as furnished by the business.

The privilege license must be displayed in a conspicuous place at the business.

The City follows MS State Code 27-17-1 for privilege licenses fees and procedures. Most fees are based on either the number of employees or amount of inventory. Licenses are issued for no more than 12 months. The majority of licenses expire September 30th of each year. When a business opens during the year, the fee is due on the anniversary date of the original license date.

The Building Department is responsible for the collection of all business licenses and setting policies and procedures related to the billing and collection of licenses.

Renewal billings are mailed September 1. The Incode system will allow for the generation of a mailing list for the license renewals. The license application is mailed by a clerk in the Building Department to each business in the system. A renewal form is included in the mailing to be completed by the business owners. This gives them the opportunity to make changes to the amount of inventory and number of employees, which is what most fees are based on, as well as other necessary changes. This enables the city to have updated information every year. The business returns the updated application with a check attached via mail. The mail is distributed to the Permit Clerk who will open the mail and enters the renewal fee into the Incode sub ledger for Licenses. The Permit will then take the checks to the Utility Department for obtaining a receipt. The utility Department will record the deposit into the sub ledger and issue the receipt to the Permit Clerk. The Permit Clerk will mail the receipt along with the Permit back to the customer.

The Permit Clerk will have an assistant track, monitor and follow-up by phone on any unreturned applications. After 30 days, a penalty will be assessed for late payments. The Building Department monitors outstanding business permits by hand and does not utilize specific aging analysis generated by the Incode system due to limited volume of delinquent application activity.

Incode will roll forward any unpaid balances that are not collected in the event that the amount paid is less than the full billings created. If the payment received does not include a penalty fee, the unpaid balance continues in Incode and is billed in the subsequent year's billing. The Building Department does not rebill the customer for the unpaid penalty fee.

For existing businesses that do not secure a renewal license, the city may charge for previous year's licenses plus penalties up to seven years.

For more detailed procedures regarding application processes, procedures in notifying business the need for license and other pertinent information refer to the Building Department's Standard Operating Procedures located in the Permit Clerk's Office.

Community Hall

The rentals of the Community Hall are managed and maintained by a clerk in the Beautification Department. The Clerk handles the meetings with customers, the creation and set up of rental agreements and the collection of Community Hall

payments (by check) for rental and related deposits. The signed agreements are maintained the Comptroller's Office in the Finance Department. The Utility Clerk accepts deposits and rental payments. All rental payments must be collected in advance. Rental deposits are refunded if the Community Hall inspection is acceptable after the event. When payments are received the Utility Clerk enters the payment into Incode and the receipt is given to the customer. The payments are coded to the appropriate deposit or unearned revenue account in Incode and the subsidiary record of activity is created. At the end of each month, the Utility Clerk summarizes the event activity and completion and the Manual Pay Request form to the Comptroller who prepares the journal entry to adjust the unearned revenue to realized revenue and also to process payments to customers for returned deposits, as necessary.

Harbor Department

The Harbor Department generates revenues based on rental of boat slips, rental of harbor areas, and sale of inventory. Rental rate structures are set based on the type of rental. Boat slips are either long-term rentals or transient (daily and overnight) rentals. Rental rates are based on the size of the vessel and are set by the Harbor Commission and approved by the City Council. The rate structure also differs for monthly versus transient rentals.

Monthly slip rentals generate most of the revenue recognized by the Harbor Department. Customers submit a signed application for rental of a slip complete with the information concerning their vessel. The Harbor Master utilizes this agreement to enter the information into Incode. The rate is calculated in Incode based on the size of the vessel, the amount of energy (amperage) required, and the residency of the customer. Mississippi residents receive a reduced rate for slip rental. All slip rentals include a flat fee for utilities. These rates are standard based on the size of the vessel. Bills are generated from Incode monthly, checked for accuracy by the Harbor Master, and mailed to customers by the 25th. The bills will have the rental fee as well as the base utility charge. Payments on customer accounts are received by the Harbor Department and entered into Incode. All rental agreements are maintained at the Harbor. Each vessel docked at the Harbor is required to have appropriate registration and insurance. This information is verified at the time of lease initiation.

In the event an account becomes past due over 30 days, attempts to contact the responsible party are made by phone, email, regular mail or certified mail to arrange an acceptable payment program. Should these remedies fail, the slip lease agreement details additional penalties and actions.

Daily sales consist of the transient rental fees, ice sales, and fuel sales. These transactions are tracked utilizing the City's point of sale software, B2K. The Harbor Department is required to maintain a portion of its slips for transient rentals. The fees associated for the transient rentals are based on the size of the vessel. Payment is collected at the time of rental. Ice and fuel sales are also collected at the time of purchase. The rates for both are determined from the cost of the inventory purchased. The Harbor Master updates the prices in the B2K system at each delivery of inventory. B2K tracks all inventory sales and transient rentals.

At the end of each day, the Harbor Master counts up total cash, checks and credit card payments. When each customer makes a payment, the Harbor Master logs this payment on a daily deposit slip. At point of sale, two receipts are generated; one goes to the customer and one stays with the Harbor Master. At the end of the day, the Harbor Master totals his daily deposit sheet (handwritten), all receipts, and prints a final sales report from the B2K system. The deposit sheet, receipts and final sales report should all reconcile and the Harbor Master uses these reports to verify that all cash is accurate and accounted for. After this reconciliation and verification process, the deposit sheet, receipts and final sales report are all attached together and sent to City Hall. The AR/AP Clerk or Comptroller verifies that the cash, checks and credit card amounts are correct and makes the daily deposit to the bank. The daily deposit sheet and the final sales report should be signed and dated by the Harbor Master and AR/AP Clerk or Comptroller.

B2K does not communicate with Incode. As a result, the Finance Department is responsible for making sure fuel, ice, and slip rental fees and payments are entered into Incode. All municipal harbor billing codes are preloaded into Incode and the finance department utilizes these codes for receipts based on the Harbor Master's daily deposit information.

Rental fees, as stated in the individual leases, are charged for rental of city land in the harbor area for special events. The Harbor Department handles the rentals and coordinates the rental with the Mayor who approves the event. The Mayor handles any additional coordination with city officials and the city council for road closures or other necessary functions.

As part of the Harbor Department's monthly accounting package, the Harbor Master provides the City Council and Harbor Commission the following information:

- a. Slip Management Report - total number of slips along with total vacancies
- b. Point of Sale Report - total gallons of fuel and pounds of ice sold
- c. Total number of transient visitors

Leased Property-City Owned Property

The City has two structures that are leased and generating annual revenue. The structures are the garden club and the historic city hall. These leases require monthly payments and are collected, deposited and recorded by the Finance Department when the payments are received. All leases of City property are approved by the City Council.

Fines and Fees (Courts)

The Municipal Court collects fines and court fees and assessments on behalf of the City. These fines arise from police citations (tickets) and court charges (state fines and assessments). The Municipal Court has a Court Clerk and two Deputy Court Clerks. They are responsible for managing the financial day-to-day activities of the Municipal Court. The Municipal Court is not integrated in the City's general ledger system. Instead, the Municipal Court uses an off-the-shelf software, OmniCourt, to manage

the fines and fees generated. Each fine or fee is manually keyed into OmniCourt, with the cost structure (amounts) of the fine and fee hard-coded into the software. These amounts are updated every July 1. When collections are made against these items, the Court Clerk will record the payment in OmniCourt along with the description of the payment method along with date and amount of payment. The Court Clerk will accept cash, money order, credit card or check. OmniCourt will generate a receipt for the payment and one copy is provided to the customer and another will be stored with the physical payment for reconciliation.

At the end of each day, the Court Clerk provides the Finance Department a Daily Report generated from OmniCourt that provides the Finance Department along with the day's deposit. If any cash is remanded with the deposit, personnel in the Finance Department will count and initial the total to confirm that the amount matches the Daily Report. The Finance Department is responsible for taking the deposit to the bank. The Court Clerk ensures that the batch report reconciles to the deposit total and signs off on the deposit. The Accounts Payable/Accounts Receivable Clerk in the Finance Department will enter the transactions into Incode utilizing the Daily Report provided.

Receivable balances are maintained in OmniCourt, but these amounts are not included in the City's general ledger until year-end. When a person is two months behind on payment, the Court Clerk will issue a handwritten letter to the person notifying them of the delinquency. If payment is not remanded immediately, a warrant is issued for the person's arrest.

Property Taxes

The City levies a tax on real and personal property based on the assessed value of property compiled by the Hancock County tax assessor from information extracted from the County's assessment tax rolls. Hancock County bills and collects the real, personal, and auto ad valorem taxes for the City. Taxes on real and personal property are levied by the City Council at the first regular meeting in September for the ensuing fiscal year, which begins on October 1. Restrictions associated with property tax levies vary with the statutory authority. State law limits the amount of increase in certain property taxes. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount that resulted from the assessments of the previous year plus new construction.

Real property taxes become a lien on January 1, and personal property taxes become a lien on March 1 of the current calendar year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase. All taxes are remitted monthly to the City.

The City considers property taxes as available if they are collected but unsettled at year end.

In addition, Hancock County also remits to the City a pro rata share of road and bridge taxes collected by the County.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year.

The Finance Department prepares a journal entry to record the remitted funds in Incode upon notification of funds by the County. Each type of receipt is coded appropriately to the fund and account.

Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Bay St. Louis) back to the City monthly.

Franchise Taxes

The City has executed franchise agreements with four utility type commercial entities that pay a variable rate to the City for infrastructure use located within the City's corporate limits. The rates paid are approximately 5% of the entity's revenues generated within the City's corporate limits. These agreements are generally long-term (ie.15 years) and are approved by the City Council. These agreements are also subject to annual ratification and rate change by the City Council. The ceiling for the rates is capped in each master agreement. These taxes are paid to the City on a quarterly basis and are collected by the Finance Department. These revenues are recorded as revenue when received.

Grants

The City receives certain grant awards for community and economic development from the U.S. Department of Housing and Urban Development (HUD) and the State of Mississippi for the specific purposes. Grant documents contain specific information relating to the collection of grant revenues. Revenues from grants are collected by the Finance Department and recorded when received and deposited.

Gaming

Gaming activities are taxed in a variety of ways.

The State of Mississippi levies a sliding scale tax on gross gaming revenue, of which Hancock County and the City receive a percent. This tax is allocated between the County and the City based upon the population demographics of the last official census.

In addition to the taxes on gross gaming revenue, the State, City and County annually receive licensing fees and permits from each casino for each gaming device.

The City is permitted by law to collect a boarding fee from the casino that is within its corporate limits. The City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenue.

IX. PURCHASING AND ACCOUNTS PAYABLE

The purpose of this section is to set forth all laws and regulations along with any other pertinent information that shall be in effect with the implementation of Title 31, Chapter 7, Mississippi Code of 1972, annotated. The purpose of the policies and procedures set forth herein is to establish guidelines to apply to the procurement of commodities, equipment and construction, bought, leased or rented with public funds, regardless of the source. This is to ensure the proper allocation and disbursement of City funds to ensure there is no fraud or waste.

A. Purchasing Policy

As a matter of policy, the Finance Department shall be of service to all City departments; all functions shall comply with good purchasing practices, applicable City ordinances, state and federal laws as set forth in this manual.

The purchasing policy is as follows:

- 1) All requests for prices and/or services, and all purchases shall be made by the Purchasing Manager or department representative, with-out regard to race, color, creed, national origin, age or sex and in accordance with this manual.
- 2) The Purchasing Manager shall have full authority to question the quality, quantity, and kind of commodities or services requisitioned to assure that the best interests of the City are served.
- 3) The Purchasing Manager or department representative shall not receive any benefit or profit from any contract or purchase made by the City.
- 4) Acceptance of gifts at any time, other than advertising novelties shall be prohibited. No City personnel shall become obligated to any vendor and must not execute any transaction from which they may personally benefit directly or indirectly.
- 5) No employee or spouse shall have any financial interest in contract work with the City as per section 25-4-105 (3) (a) of the MS Code.
- 6) The Finance Department shall strive to maintain strong, professional and cooperative relationships with vendors of proven ability and with those who have a desire to meet the needs of the City. To accomplish this, purchasing activities shall be conducted so that the vendors will value City business and be encouraged to make every effort to fulfill City requirements based on quality, service, and price. If at any time a department has an issue with a vendor, the department shall document the information and forward to the Purchasing Manager.

- 7) The City shall buy only from vendors who have adequate financial strength, high ethical standards, and a record of adhering to specifications, maintaining shipping promises, and giving a full measure of service. New vendors will be given due consideration as multiple sources of supply are necessary to insure availability of commodities and services.
- 8) The Purchasing Manager shall act as City representative on all matters pertaining to purchasing.
- 9) The Purchasing Manager shall not knowingly issue a purchase when there is a conflict of interest. All known or suspected conflict of interest situations should be referred to the City Attorney, whose opinion shall be final in the absence of any specific instructions from the Mayor. Such opinions or instructions shall be documented by the issuing authority.

B. Purchasing Procedures

The City utilizes comprehensive checks and balances to ensure the propriety of the Purchasing Policy and minimize risks and errors and the possibility of collusion and fraud. Some of the basic purchasing principles and goals that City employees should be aware of include:

- New vendors/suppliers are investigated and evaluated.
- New vendors/suppliers are approved before adding to vendor Master File List.
- Competitive prices are evaluated and obtained.
- Obsolete vendors or those that are no longer used are deactivated and purged from the vendor Master File List.
- Purchases are made with the appropriate level of authorization and approval.
- Purchase Orders are properly authorized and prepared.
- Purchases that exceed a department's budget are prohibited.
- Accounts payable disbursements are made with the proper approval.
- Receipt, custody and verification of goods and services is documented.
- Prices charged on vendor/suppliers' invoices match the Purchase Order or pricing program.
- All emergency purchases must be fully justified to eliminate the unnecessary use of emergency purchases for non-emergency situations whenever possible and procedures must be implemented to track emergency purchases so any misuse of this nature can be easily detected.
- Amounts that are recorded in or disbursed from accounts payable match the approved vendor/supplier invoice(s).
- Volume purchase discounts should always be taken whenever available.
- Duplicate vendor/supplier invoice numbers are not allowed to be recorded in the accounts payable program.
- The accounts payable program does not allow an invoice number to be paid more than one time.
- Outstanding credit memos should be routinely reviewed and applied to current or future vendor/supplier invoices.
- Vendor/supplier invoices are coded to the correct general ledger account.

- Purchases that have been made are always recorded in the accounts payable program and paid on a timely basis.
- When accounts payable disbursements are made, checks are printed and shown as paid.
- Manual check payments are recorded in the general ledger.
- Payments are recorded in the proper accounting period.
- The accounts payable purchase details are summarized, posted to the general ledger and are in balance with one another.
- The accounts payable disbursement details are summarized, posted to the general ledger and are in balance with one another.
- Accounts payable duties and responsibilities are effectively segregated to minimize the risk of collusion or fraud.
- Whenever possible the City should participate in cooperative joint-purchasing programs with other public-sector entities to achieve cost savings through volume discounts.
- Personnel who are authorized to purchase must ensure that the State of Mississippi bidding and purchasing laws and standards are carefully and scrupulously followed.

Each department head must make sure that the foregoing principles and guidelines and all other provisions of Purchasing Policy and Procedure are in effect before orders are placed with vendors/suppliers.

A purchase order must be obtained prior to any order on any commodity or service being placed. The purchase order and requisition serves as a check to ensure that budget funds are available for the disbursement. If the requisition exceeds the budgeted allowance, Incode will notify the user. A manual override followed by a budget amendment will be required to continue the process.

When a department recognizes a need, the authorized individual in that department shall enter the request into Incode along with all required information regarding the purchase. Purchasing will review the requisition for sufficiency of data, accuracy and legal compliance as frequently as time allows, but not less than 5 times per day. Thereafter, the request shall be approved or rejected. If approved, a purchase order number will be issued. It is the responsibility of the Finance Department to carefully review all requisitions for accuracy, legality and pricing. The Finance Department has full authority to reject purchase orders wherein it appears that the pricing is out of range or that a potential legal issue exists.

The Director of each department shall furnish an approved list of names of the personnel within their respective departments that are allowed to purchase on their behalf. The Director may delegate this purchasing process to a representative; however, the ultimate responsibility of the purchase rests with the Director.

Upon delivery of each order and its acceptance by the City, the department or division shall sign and date the invoice, stamp date received and forward to the Finance Department for payment.

If the receipt is a “PARTIAL” delivery, the department representative is responsible for stamping a copy of the purchase order “PARTIAL”, attach the invoice, and forward same to the Finance Department for partial payment.

NOTE: If it appears that the order will be complete within the next docket date, the invoice should not be remitted for partial payment, but held until complete.

If the receipt is “COMPLETE”, then a copy of the purchase order will be stamped “COMPLETE,” attached to the invoice, and forwarded to the Finance Department.

The purchase order dollar amounts MUST match the invoice dollar amounts. The department turning in these documents will verify each for correctness prior to submitting documents to the Finance Department. The requesting department can modify the dollar amount(s) on the purchase order as long as the order is under the \$5,000.00 bid limit. This will be done by marking through the wrong amount on the purchase order, writing in the correct amount and initialing. Each line item on the purchase order must be verified for correctness with the invoice amount. This will allow accounts payable to release payment by line item and the partial payment system will be utilized as was designed.

All purchase orders/contracts shall specify that transportation is F.O.B. destination or freight prepaid by the supplier and invoiced to the city. No contract shall provide for shipments that are freight collect.

The Finance Department will verify:

- a. The purchase order number on the invoice matches both the actual purchase order number that is being turned in;
- b. The dollar amount on the purchase order matches the dollar amount on the invoice. Variances can occur on purchases that fall below the \$5,000.00 bid limit. An authorized signature must appear on the invoice as well as on the purchase order, approving the cost variance. If the purchase is a Bid Item, or council approved, the dollar amount CANNOT be changed and the Finance Department must be notified immediately if the invoice is different.
- c. The vendor on the purchase order is the vendor on the invoice.

After acceptance of order and receipt of a valid, correct invoice and purchase order copy, the Finance Department shall post the invoice on the claims docket for payment which shall be approved by the City Council prior to payment.

The City Council meets on the first and third Tuesday after the first Monday of each month. All invoices shall be processed and posted on the claims docket no later than 12:00 p.m. on the Tuesday prior to the City Council meeting.

C. Personnel Travel

The City of Bay St. Louis Finance Department will monitor employee compliance on all travel related expenses in accordance with local and State Travel Policies. The Department of Finance and Administration, Office of Purchasing and Travel can be accessed at www.dfa.ms.us. It is the responsibility of the Finance Department to ensure that employees are familiar with the established state and local travel policies.

Employees traveling on official city business are expected to exercise the same care incurring expenses as would a prudent person traveling for personal reasons. Travel for business should be conducted at a minimum cost for achieving the success of the mission.

Employees traveling on official city business as well as their Department Director are responsible for ensuring compliance with Section 25-3-41, Mississippi Code of 1972. It is the responsibility of the employee to verify all costs related to the travel request being submitted for approval.

Travel authorizations (PD07-01) will be submitted to the Department Manager, for signature approval. The paperwork will then be submitted to the Finance Department for file. All associated and/or applicable paperwork such as conference agendas shall be submitted with the travel approval to the Finance Department to determine eligibility of costs. The requestor can enter requisitions for applicable expenses, i.e., per diem, registration fees and use the City of Bay St. Louis travel credit card for other applicable expenses. Per Diem is allowed for meal(s) when the distance exceeds 60 miles or more from the duty station. Food is NOT an allowable expense to the credit card.

If meal(s) are provided then that meal(s) will be deducted from the meal per diem that is allowed. If there are medical conditions existing that prevent an employee from eating a meal provided, then certified documentation shall be submitted stating this. Requisitions for meal per diems will not be approved unless they are within 6 weeks of the approved travel.

If out of pocket expenses are incurred during official travel, a Travel Expense Voucher Form, (PD07-02) will be filled out upon return and submitted to the Department Manager and Department Director for approval. Once approved, the requestor will enter a requisition for reimbursement purposes. Examples of allowable expenses while on travel are office supplies such as file folders, books while at training seminars, note pads or film for a camera.

The following are expenses that will not be reimbursed by the City:

- a. Laundry, cleaning, or valet services;
- b. Tobacco;
- c. Alcoholic beverages;
- d. Entertainment;
- e. Personal telephone calls;
- f. First class travel accommodations when economy or coach class are available;

- g. Meals and lodging in lieu of other meals and/or lodging, the expense of which is included in the Registration fee;
- h. Fines, forfeitures or penalties;
- i. Rental vehicles except as pre-approved;
- j. Expenses of a spouse or other non-employee;
- k. Loss or damage to personal property;
- l. Barber, beauty parlor, shoe shine or toiletries;
- m. Personal postage;
- n. Food (other than meal allowance); and
- o. Personal items.
- p. The following are expenses that may be reimbursed by the City:
- q. Hotel/Motel;
- r. Registration;
- s. Book fees;
- t. Gas for city vehicles if not available from Fuelman and/or mileage reimbursement;
- u. Repairs to city vehicle if out of town;
- v. Car rental (if approved);
- w. Air fare.

It is the responsibility of the employee to determine the availability of a city vehicle for the specified travel time. It is prudent of the employee to use a city vehicle rather than use of a personal vehicle. If a city vehicle is not available then the employee shall be reimbursed for mileage at the current State mileage rate. When using a city vehicle for travel, check with the Administrative Assistant of your department to obtain a personal pin number to use with the Fuelman fuel card that is assigned to that city vehicle.

Receipts shall be signed and turned in with the city credit card within 3 (three) working days of returning from the authorized travel.

D. Accounts Payable

A docket of claims is presented to the City Council twice a month for payment approval. The docket consists of outstanding invoices submitted by various departments for payment.

After the council approves the docket for payment, the Finance Department generates a report to print checks.

All checks are pre-numbered and stored in the vault at the Mayor's office, which requires key card access. After the checks are printed they are checked for the date, check number, and payee.

All checks require two signatures. The Mayor, City Clerk, Comptroller and the City Council Clerk all have signatory rights. If the signature isn't printed on the checks the checks are considered void.

After all checks have been printed, the Finance Department generates a cash disbursement report that shows the breakdown of the check number, the vendor who

receives the check, and the amount of the check. This report is then given to the Administration and Finance Accountant for documentation.

The Finance Department then matches all checks with their remittance and the checks are mailed as soon as possible.

The paid invoices are filed by vendor and are kept in the Finance Department for retrieval in case of a vendor dispute.

X. PAYROLL

Job applicants are interviewed and hired by Department Heads with Mayor and City Council approval. Job applicants complete applications. Upon hiring, the applicant meets with Payroll Administrator. The applicant meets with the Personnel Administrator who will verify that all required personnel forms are completed and I-9 information is obtained. The Payroll Administrator utilizes a checklist to verify that all required personnel forms and data are obtained. All personnel forms and the checklist becomes a part to the personnel file which is filed in a locked file in the Human Resources Department. The checklist is signed by the Payroll Administrator to verify that all items are complete. Each new employee is given an employee handbook. The Employee Handbook for the City of Bay St. Louis discusses topics involving employment related practices from the hiring, probationary period, employment responsibilities, leave and time-off and other employee requirements. Each employee signs a receipt as evidence of receiving the employee and a copy of the receipt is placed in the employee file.

A. Payroll Policy

The Payroll Administrator is responsible for entering the employee data into Incode. Key data captured include pay rate, department, and various withholdings for insurance, taxes and deferred benefits (retirement). Most City employees are hourly. The City's main salaried positions are Mayor, Comptroller, Police Chief, Fire Chief, Public Works Department Head, Building Department Head, Harbor Master, Deputy Harbor Master and City Council Members. Some part-time employees are also salaried.

Specific keystroke-by-keystroke instructions for processing payroll are given in the Incode Payroll Processing Manual maintained by the Payroll Administrator in the Finance Department. Those operator instructions are not included in this Policies and Procedures manual, but may be referred to for specific instructions.

- a. The City has biweekly payrolls.
- b. A payroll work week starts on a Monday and ends the following Sunday at 12:00 midnight. Payday is the Friday following the end of the two-week pay period. If a holiday falls on the Friday, the payday, the payday will be moved to the Thursday.

The Payroll Administrator's duties and responsibilities are heavily involved in the City's Payroll Process. Additionally, the Accounts Payable Clerk in the Finance Department is responsible for initiating the payroll disbursement from the City's operating bank

account. In the absence of one of these positions due to time off or scheduled leave, the Comptroller will perform backup of the required procedures and processes. Due to the extent of the Payroll Administrator's time involvement, the Payroll Administrator will try to schedule time off or away from the office around payroll deadlines where possible.

B. Timekeeping

All employees will be required to keep track of their time. Department Heads can keep up with their time directly in the WASP Time Management System using their computer and are not required to utilize time clocks. Also, Department Heads have the ability to edit or correct time for employees in their department. Department Hourly employees and any salaried employees other than Department Head employees generally utilize a time clock system. An exception to this practice occurs in the Police Department and the Fire Department which have a Department Head or manager keep track of the daily time of each employee. These Departments manually summarize and report time directly to the Payroll Administrator. City facilities will have at least one time clock in the building. Employees are required to punch (by finger scan using biometrics or by entering employee code) the clock when he or she begins a shift, leaves for lunch, returns from lunch, and ends a shift. The employee is also required to punch the clock when they leave for unpaid breaks or appointments. It is each employee's responsibility to notify their Department Head if they forget to punch or will be on leave. The Department Head acts as the approver of edits to employee time in these situations. The Payroll Administrator is responsible for training employees on the use of time clocks.

Each Department Head will review the electronic punches of each employee. The Department Head will be responsible for the accuracy of the employee punches and, making manual adjustments if an employee misses a punch. The Payroll Administrator is responsible for training the managers on the use of the timekeeping software.

Bi-weekly each Department Head must review his or her employee's timecards and approve them all by 12:00 pm on the Monday before payday.

C. Payroll Processing

Most Department Managers download their department employee's time from the WASP system. Exceptions to this process are for the Police Department and the Fire Department. The Police Department and the Fire Department each submit department generated time summaries for each employee to the Payroll Administrator that are not generated through the WASP Time System.

Department Manager's review the time of each employee and forward the summary to the Payroll Administrator.

The Payroll Administrator reviews the data received from the Department Managers.

- a. Incomplete information or time records must be followed-up by contacting each employee's Department Head for incomplete time data.
- b. Employee pay is docked if sufficient leave time is not available in the employee's accumulated leave. The Payroll Administrator will usually contact the Department Head if the employee's pay period is missing time or to verify that the employee

wants to move time between allowable fields to fill in missing time, such as moving an shortage of vacation time from available personal time. Any changes or adjustment in the time are discussed with and approved by the Department Manager who confirms this adjustment with the employee.

- c. Employee annual leave is tracked in Incode. Incode leave tracking has hard edit checks to prevent employee leave from accruing or being utilized beyond allowed time limits for time allowed off accruals.

The Payroll Administrator reviews the hours worked, pay rates for any Notice of Pay Change forms received or accrued leave or comp time if necessary.

The Payroll Administrator manually enters each employee's time into Incode.

After completing the download of time, the Payroll Administrator will run the payroll batch report showing gross payroll data in Incode.

This batch summary report is forwarded by the Payroll Administrator to the Mayor and the Comptroller for their review and for their verification of City cash funding. The batch reports are returned to the Payroll Administrator after the Mayor and the Comptroller each sign off by initialing approval.

After receiving approval, the Payroll Administrator will run the calculation of the payroll and preliminary payroll register.

The Payroll Administrator will make any error corrections and investigate any warnings which are generated by the calculation. After completion of the edits the final payroll calculation is performed and the posting of each employee's payroll record is performed in Incode. Each employee leave report is automatically updated in Incode.

The next process is for the actual check writing, deposit slips and ACH.

The Payroll Administrator will enter the pay date and the direct deposit date in Incode. Payroll checks, direct deposit slips and leave reports for each employee are printed. The Payroll Administrator generates the ach summary which is forwarded to the Accounts Payable Clerk to initiate the disbursement. This ach summary is a summary sheet of the gross totals to be transmitted to the bank.

After the bank transmission of the payroll by the Accounts Payable Clerk takes place, the Payroll Accountant is can initiate posting to the general ledger accounts for the payroll expenses and the and closeout in the Incode.

The Payroll Administrator then initiates payment of the payroll liabilities from Incode. Payroll liabilities include federal taxes, state taxes, Public Employee Retirement System, Mississippi Deferred Comp Plan, various insurance coverages, garnishments and other miscellaneous items. The Payroll Administrator will initiate in Incode payment of these various liabilities. Federal withholdings are made bi-weekly. Monthly disbursements are performed for State of Mississippi, PERS, deferred comp, insurances and garnishments. When initiated in Incode, the appropriate deduction report is opened and liability amounts in Incode will be input to the appropriate screen. The Payroll

Administrator will log in to the required web portal (ie. EFTPS for federal, MESC for Mississippi taxes and so forth). Incode will automatically link the liability amount to the payment screen. After verification of the liability amount and the balance populated on the web portal, the Payroll Administrator will submit the transfer from the City's operating bank account.

A leave report and batch payroll report are given to the City Council for informational purposes, review and approval. This City Council approval takes place after the payroll has been disbursed at the next Council scheduled meeting.

D. Pay Changes

Employee Payroll rate changes are recommended by each Department Head during each annual budget process or occasionally based on merit or promotion. These pay rate changes must be approved by the City Council. A Payroll Change Notice is generated by the department head, submitted to mayor and forwarded to city council. The Department Head, Mayor and City Council must each sign off approval on the Payroll Change Notice. After approval and forwarded to the Payroll Administrator for making pay rate changes in Incode. Payroll Change Notices are also prepared for new hires in order for the Payroll Administrator to enter the new employee into the Incode system. Payroll Change Notices are maintained in the employee's personnel file.

E. Correcting Mistakes

If an employee or their supervisor makes a mistake on a timesheet, the appropriate action will be taken on or before the next payroll. If the payroll department makes a mistake, all effort will be made to correct the mistake as soon as possible.

F. Distribution of the Payroll

This time schedule is based on the City's current payday of Friday.

- a. Payroll checks, deposit advises for direct deposits and each employee's annual Leave Report is placed in a sealed envelope and distributed to Department Heads on Friday morning.
- b. All payroll checks and direct deposit advices that are not picked up by the close of business on Friday held by the Department Head until the employee returns to work or mailed. If employees are scheduled for several days of leave or other scheduled absences, the checks or deposit slips will be mailed to the employee's address on file.
- c. All uncollected checks and advices will remain in the payroll office until Wednesday morning.

XI. FIXED ASSETS

The State of Mississippi Auditor's Office has issued The 2010 Municipal Audit and Accounting Guide and Section II-C Property Accounting System should be followed. This guide contains specific details for the chart of accounts to be used by each City and the requirements for acquisition, disposition, tagging and inventory procedures for City Property.

The City currently has an Incode sub ledger all fixed assets. Fixed assets are entered into the fixed asset sub ledger when the payment is made. The City uses a different dollar threshold for tagging assets and for recording assets in the Incode sub ledger in accordance with guidance from the State Auditor's Office. All city acquired fixed assets with a cost of \$1,000 or greater are bar code tagged to ensure all items purchased with City funds are properly tracked. Only fixed assets that exceed a five thousand dollar threshold are captured in the Incode sub ledger and depreciated using the straight line method. Fixed asset acquisitions under a cost of \$5,000 are expensed. New fixed assets above \$5,000 are paid and recorded in Incode into the general ledger by the Finance Department. The Finance Department is also responsible for updating the acquisition into the Incode sub ledger. The Incode sub ledger contains standard values for useful life and salvage values for all asset classifications. Finance enters the asset item and pricing for depreciation purposes. A physical inventory of assets is conducted annually by each Department Manager. A review of the results of the physical inventory to the underlying Incode sub ledger is conducted by the Comptroller in the Finance Department.

Responsibilities

Department Managers are ultimately accountable for assets \ equipment within their immediate area of responsibility. This accountability is inherent to the position. Accountability includes properly marking \ tagging, inventorying, and maintenance of all equipment in their immediate area of responsibility.

Responsibility lies with very individual utilizing city assets \ equipment in the performance of their duties.

All Personnel are responsible to adhere to the following procedures in the procurement, movement and disposition of all city equipment.

Definition of Fixed Assets

Fixed asset tagging and capitalization guidance is furnished by State Auditor's Office. In general, a fixed asset is anything with a value of \$1,000 or more and having a useful life of greater than one year. The exceptions to this rule are items with lives greater than one year and costing less than \$100 as listed below:

Air Compressors	Dictating Equipment	Refrigerators
Cameras	Generators	Tape Recorders
Cell Phones	Guns and Weapons Hand	Televisions/VCRs
Chain Saws	Power Tools Lawn	Typewriters
Computers	Mowers (Riding)	Welding Equipment

A. Acquisition of Fixed Assets

Each department is provided with bar-coded identification tags in a sequence of tag numbers. (It will be the responsibility of the departments to notify the Department Manager for additional tags.)

The procurement process begins with an approved purchase order process containing a fixed asset purchase by a Department Manager after being approved by the City Council.

Fixed assets will be purchased using the Incode purchase order system. Assets will be shipped to and received at the appropriate location. All fixed asset purchases will be flagged as such on the requisition entry screen.

It is important to use the correct account numbers when purchasing fixed assets. The City currently uses the following account object codes.

- 1) The following accounts shall be used for items greater than \$1,000:
 - 070 Buildings
 - 071 Equipment
 - 072 Improvements / Infrastructure
 - 073 Vehicles
 - 074 Accumulated Depreciation
 - 075 Construction in Progress
 - 076 Land
- 2) For fixed asset items less than \$1,000, the following accounts may be used:
 - 612 Office Supplies
 - 613 Operating Supplies

Exceptions to the above procedures are those fixed assets received by donation or gifts from private individuals or organizations. The department manager must document these items in writing by completing the necessary fixed asset disposition form to the Finance Department.

Fixed assets are acquired as needed and in order of general importance. A departmental request is proposed and sent to the Finance Department. Finance Department determines if there are funds available or if a reclassification of budget funds will be required. Once Finance has done this verification, the request becomes an agenda item for City Council approval. The Council either approves or denies the request. If approved, a required bid process is must be followed by obtaining either two quotes or possible even obtaining formal bids. Two quotes are required for items that exceed a five thousand dollar threshold and a formal bid process is required for acquisition over \$25,000.

Receiving Fixed Assets

When the fixed asset is received, the following steps will be accomplished.

- 1) Tag the asset with a bar coded identification tag (exception to this is computers).
- 2) The department manager will fill out a New Fixed Asset Form.

- 3) Complete the form with the Department Name \ Number, General Description of Asset, Serial Number, City Tag #, Brand Name, Model, Year, Location of Asset and the signature and date of the responsible party.
- 4) This form shall be forwarded to the fixed asset coordinator.

B. Disposal of Fixed Assets

Annual Inventory Process

On an annual basis, the Finance Department generates a sub ledger listing of all fixed assets from Incode for each Department Manager. The Department Manager should verify the existence and condition of all items that are on the sub ledger listing. Any variances should be researched and noted and brought to the attention of the Finance Department. Missing items are listed on a disposal form issued by the Comptroller. This disposal form should give a detailed description of the missing item and should be signed and dated by Finance and specific department head. The disposal form is then submitted to Council so they can approve the disposal. Once disposal has been approved, Finance will initiate journal entries to remove item from sub ledger listing. The signed and approved disposal forms are filed.

The Department Manager will submit to the Comptroller a completed Fixed Asset Disposition Form.

- 1) Forms may be submitted by email, fax, or hand delivery.
 - a. The fixed asset coordinator will not delete, add, transfer, or adjust fixed assets without this completed form.
 - b. Movement, repair and disposal of computer equipment will be coordinated and accomplished by Information Systems personnel only. All movement and disposal of technology equipment will be reported to the Finance Department. Property Manager using the Fixed Asset Disposition Form.

Other Disposals of Fixed Assets

Stolen Property – shall be reported to the appropriate law enforcement agency. Items identified should be entered in the National Crime Information Center (NCIC) computer. A Lost and Stolen Property Affidavit will be filled out and will be sent to the Finance Department with a copy of the police report attached. Disposition of stolen property shall be reported on the council minutes.

Lost Property shall be reported on or accompanied by a Lost and Stolen Property Affidavit to the Finance Department. Disposition of lost property shall be reported on the council minutes.

Disposal of Surplus Property - Disposal of all Fixed Assets must be reported to the Property Manager.

- 1) All Fixed Assets of value should be disposed of by Public Auction or other public sale.
- 2) Exceptions are Fixed Assets Traded In on the same new item. (Vehicles not allowed on state bid) Value of trade in must be greater than sale. (Example cost of preparing refrigerator for auction more than expected value received. Trade In value \$0.00). Remember the definition of a Fixed Asset, a tag missing does not mean it is not a fixed asset.
- 3) All real property should be disposed following Section 21-17-1 of the State of Mississippi Code.
- 4) All other property must be examined for residue value before disposal. (Example: Piece of equipment that is not repairable might have value as scraped metal)
- 5) The Comptroller will compile a report of property disposed of for the recording in the minutes of the City Council.

Insurance Records and Reporting of Thefts and Damage

All fixed assets will be added to the schedules of insurance based on the value. Exception is Lease or Lease Purchase Equipment, certificate of insurance will be requested accordingly to Lease Documents or Lease-Purchase Documents.

XII. BONDS AND DEBT SERVICE

The City of Bay St. Louis will issue debt only to fund capital projects, which cannot be supported by current, annual revenues. The City Council will advertise for the bid. Bids are provided as sealed bids and awarded to bidders presenting the lowest and best offer. To minimize interest payments on issued debt, the City will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding 30 years. Retirement of debt principal will be structured to ensure constant annual debt payments. The City will attempt to maintain competitive base bond ratings (prior to insurance) on its general obligation debt. The City shall continue to seek to enhance its credit quality by frequent contact and visits with the rating agencies, and monitoring the current trends and guidance from the agencies. When needed to minimize annual debt payments, the City will obtain insurance for new debt issues.

Utility rates are designed to provide for a depreciation reserve which accumulates resources to replace or rehabilitate aging infrastructure. In addition, the multi-year financial plan provides debt strategies to finance needed capital items. Inasmuch as roads and other components are essential to extending utility service, revenues in excess of anticipated current year needs will be reserved for future road improvements and related infrastructure projects at year-end. This will assure that infrastructure costs are funded along with utility projects.

The City utilizes debt service funds to account for the accumulation of resources for, and the payment, of general long term principal, interest and related costs. The City will

maintain a debt service fund for each of the bond issued to administer the debt associated with the general obligation bonds.

The City will periodically remit payments from the general fund to the sinking fund accounts to manage the payment of obligations. The Finance Department codes each debt payment as an expenditure in the account, which requires a journal entry at year-end to appropriately allocate the payments between principal and interest.

XIII. GRANT MANAGEMENT AND REPORTING

It is the policy of the City of Bay St. Louis to seek grants for funding purposes. It is the responsibility of all departments to seek and evaluate supplemental grant funding consistent with the priorities of department business plans and service priorities of the City. Grant funding requires internal procedures to ensure effective and efficient use of grants. Adherence to the procedures below is required for all grants and granting agencies.

The objective of grant management is to develop, implement and maintain meaningful grant oversight and coordination for the City thereby increasing grant related revenue, limiting the City's exposure to grant related legal liability, and improving the efficiency and impact of programs and services funded through grants.

Grant Functions

Grant funds received by the City of Bay St. Louis support important programs and services that the City provides to the community. These funds allow the City to extend preexisting services, introduce new initiatives, gain technological advances, and subsidize programmatic staffing. Grant funds are dispersed throughout the City and impact a variety of efforts, including homeland security, economic development, social services, public safety, recreation, and infrastructure improvements and maintenance, among others. Because grant funding allows the City to leverage local public funds in order to extend and enhance the services it offers to the community, the impact of grant funding upon the community is significant, with the process of grants administration and management a critical and important function. Furthermore, the financial integrity of the City of Bay St. Louis is of utmost importance, and adopting a set of policies is a key element to maintain this integrity.

These policies and procedures are intended to foster exceptional stewardship of the public trust through a rigorous adherence to ethical and professional standards associated with grant related activity. Adherence to these policies and procedures will promote efficiency, better transparency, greater accountability, a strategic approach to funding opportunities, and generally place the City in a more competitive position for securing grant funds.

Grant Roles and Responsibilities

The purpose of this policy is to establish the roles and associated responsibilities of the City of Bay St. Louis involved in the grant process. City departments and their staff occupy positions of

responsibility with respect to grant activity have specific roles and responsibilities that they shall perform and uphold both ethically and in the best interest of the City of Bay St. Louis.

- A. City Departments, Divisions and Offices – City departments, divisions and offices (“departments”) that apply for and utilize grant funds are responsible for all aspects of the grant process including planning for grant acquisition, preparation and submission of grant proposals, grant writing, preparing City Council Agenda items to accept grant awards, preparing budget revision request to accept grant funds, developing grant implementation plans, managing grant programs and projects, preparing and submitting reports to grantors, and properly closing out grant projects as detailed in this policy and the grant agreement or award letter that delineates the terms and conditions of the grant.
- B. Grants Management Committee Representative (GMC Representative) - The GMC Representative is a key component in the success of the City’s grants management and administration goals. This person is currently the Interim City Clerk. To facilitate communication, each Department Director shall select an individual, called the GMC Representative, to represent the department on the Grants Management Committee and to be the department’s point of contact. The Department’s Director may designate more than one GMC Representative if department grant activity requires more than one GMC Representative. The GMC Representative shall:
 - (1) Communicate grant related information from the Grants Management Committee meetings and communications to all staff in their department with grant responsibilities.
 - (2) Serve as the conduit for grant related ideas and information from the department back to the Grants Management Committee.
 - (3) Ensure City grant policy and procedures are being followed in the department.
 - (4) Report their department’s grant activity to the Grants Management Committee and enter their department’s grant activity in the Grants Management Database.
 - (5) Participate in GMC meetings and subcommittee meetings to accomplish committee goals and objects as needed.
 - (6) Share ideas and expertise in grant related meetings and training events as needed.
 - (7) Assist your department and other departments in writing grants, collecting data, research of data and other funding sources as requested.
- C. Grant Project Manager – The employee responsible for managing the program or project funded by the grant within a department.
- D. Finance Management & Budget Division – is responsible for creating a grant fund and/or project number, which is used to recognize grant revenue and expenditures in the department or division’s budget. The Finance Department is responsible for the oversight of grant related financial reports generated by recipient departments, provides general oversight of grant related issues, including the proper budgeting and accounting for grants and other responsibilities indicated throughout this policy.

Grant Financial Reporting

All grant funds received by the City should be recorded in the manner specified by the grant requirements. These funds should be clearly presented in the financial statements as a source of revenue that is noticeably distinct from the municipality's other forms of revenue. Any sub grants should also be clearly broken out. Most grants typically must be accounted for in its own fund account to create ease of monitoring. These separate funds should be as transparent as possible so that all internal and external users of municipal financial statements can see all grant fund activity. Grant fund disbursement should be detailed in the general ledger and all disbursements should follow guidelines prescribed by the granting party. When initially awarded, a new fund should be set up for the grant monies. Those monies and funds should then be added to the budgeted and expended just as other municipal funds are. As an added control feature, adding the grant funds to the budget and booking the balance in Incode ensures that all grant funds are monitored and all spending can be accounted for. A major focal point of federal grant funds is accountability and the entire granting process should be centered on the proper use and custody of unused funds. Grant funds should have a distinct audit trail and should be properly documented within the financial statements and accompanying notes.

Elements of Grant Financial Management

The actual grant contract will govern the detailed documents and forms to be utilized related grant communications, monitoring and requests for reimbursements and should always be followed. The Bay St. Louis (recipient's) financial management system should contain all of the following elements as required by 24 CFR Part 85 and relevant requirements together with the related program regulations.

- A. Financial reports that are accurate, current, and represent a complete disclosure of the financial results of each grant program.
 - 1. Cash Request Summary Support Sheets are consistent with the general ledger and disbursements journal.
- B. Records that adequately identify the source and application of funds.
 - 1. The recipient/administrator identifies expenditures in its accounting records according to eligible activity classifications specified in 24 CFR 570 or similar classifications that clearly identify the use of program funds for eligible grant activities.
 - 2. The recipient/administrator identifies expenditures by other matching funds.
 - a. The documentation is maintained to support the expenditure of other funds.
 - b. Other funds are expended proportionately with this grant's funds.
 - 3. Determine if any in-kind contributions required by the project.
 - 4. All in-kind services thoroughly and completely documented.
 - 5. Determine if cash contributions required by the project.
 - a. Documentation maintained and available to support the cash contributions.
 - b. Cash contributions are expended proportionately with this grant's funds.
 - 6. Revenue generating activities (e.g., rehabilitation, economic development loans) are being undertaken.

7. If revenue generating activities are being under-taken, the recipient established revenue accounts to record program income.
- C. Comparison of actual expenditures with budgeted amounts for each grant.
1. The recipient/administrator maintains a ledger with budgeted amounts as specified in the grant's contracts.
 2. The recipient administrator records expenditures from the disbursements journal into the ledger on a monthly basis.
 3. The ledger includes unexpended/unobligated balances.
 4. The disbursements journal is set up according to the grant's budget line items within the contract.
 5. The recipient/administrator maintains cash request support vouchers for expenditures and can these be tied to Requests for Cash.
 6. Deposits are recorded in the disbursements journal and totals posted in the ledger.
 7. Journals and ledgers maintained on a monthly, cumulative basis.
 - a. Bank statements are reconciled on a monthly basis.
 8. Costs are charged to the correct budget category and are within allowable threshold.
 9. The recipient/administrator has made entries in journal and ledgers for any required budget modifications.
 10. No costs were incurred outside the effective grant contract dates.
 11. For grant funds are that are deposited into an interest bearing account, any interest income, above the amount the recipient is allowed to retain (\$100 per year) has been returned to the State or other oversight agency.
- D. Procedures to minimize the time elapsing between the transfer of funds from the State and disbursement by the recipient.
1. The recipient/administrator has properly disbursed payment of program costs. (Bank balance must be \$0).
 2. The recipient/administrator has documented the justification for each instance in which funds were not properly disbursed.
 3. Amounts erroneously withdrawn from the State returned to the State in accordance with the timely requirements specified by the oversight agency.
 4. The recipient/administrator has expended program income (other than program income deposited in a revolving fund) in payment of program costs prior to making further cash withdraws from the State.
- E. Fiscal Miscellaneous
1. The recipient/administrator has written standard operating procedures for financial management.
 2. Appropriate agency representatives are adequately bonded.
 3. Separate accountability is maintained for contract or grant funds.
- F. Property Procurement and Inventory
1. Equipment specified in the grant contract has been purchased.
 2. All property purchased under the grant contract is being used for grant activities,
 3. Adequate records are maintained for leased and purchased non-expendable property.

4. There a control system to insure against loss/damage/theft.

Katrina Supplemental Community Development Block Grant (CDBG)

Due to the devastating effects of Hurricane Katrina, the City of Bay St. Louis was awarded a community development block grant to aid the City in regaining its momentum during post-Katrina efforts to rebuild. The awarded block grant was a federal grant that was issued via Housing for Urban Development.

Block grants are a broad intergovernmental transfer of funds or other assets by the U.S. Congress to state or local governments for specific activities such as secondary education or health services, but with few restrictions attached. Block grants are distributed according to legal formulas defining broad functional areas such as health, income security, education or transportation. They are used for a variety of activities, largely at the recipient's discretion.

XIV. FINANCIAL REPORTING

A. Cash Management

Small amounts of cash are held at each location where City officials are responsible for collecting payments. These include the Utility Department, the Harbor Department, and the Court Department. Each location is responsible for balancing the cash drawer nightly. The countdown of each drawer is included in daily batch deposit totals remitted to the Finance Department.

The custodian of a cash drawers must be bonded (as required by law) and will be responsible at all times for the funds and purchases of the cash drawer. The amount of cash in the drawer and/or paid invoices and explanations for proper expenditures must always equal the total amount authorized to be in the cash drawer. These funds are for City use only and are subject to audit at any time. Misuse of these funds is grounds for termination. It is a policy of the City not to cash checks of any kind through the cash drawer.

Bank Reconciliations

Reconciliations of bank accounts are performed throughout the following month by the bookkeeper in the Finance Department. Hard copy bank statements are opened by the Accounts Payable/Accounts Receivable Clerk at the beginning of each month. The opened bank statements are provided to the bookkeeper who utilizes the bank reconciliation module within Incode. The bookkeeper is charged with identifying and clearing all transactions recorded in the bank statement with those that are presented in Incode. A comparison of dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal. A comparison of inter-organization bank transfers to be certain that both sides of the transaction have been recorded on the books. Any discrepancies are reported to the financial institute for correction within the month. Any unexplained discrepancies need to be reported to the Comptroller for review.

Journal vouchers are generated to account for bank fees and other charges and interest not already posted in the general ledger. Upon completion of the reconciliation, the

bookkeeper provides an initialed printout of the bank reconciliation to the Comptroller. The Comptroller will review and sign off on the reconciliation and complete the posting process of the journal entries.

B. Reporting

Monthly Reporting

There is no month-end close process. Month end reporting consists solely of management and budget reports provided to the Mayor and City Council. Section 21-35-13, Miss. Code Ann. (1972), requires the City to prepare a budget report to be presented to the governing authority at the regular meeting each month. This report is intended to provide information to the board/council so it can determine the status of the budget. This information is important for proper management of municipal finances and for the claims approval process. Approval of claims that result in the budget being exceeded could result in liability of the governing authority [Section 21-35-17, Miss. Code Ann. (1972)].

For receipts -- This report should show the total amount received for the fiscal year through the preceding month for property taxes and other revenue items.

For disbursements -- The report must show the status of each department's budget. This means totals for each item adopted in the department's budget, including:

1. Charges (disbursements and unpaid claims) to each budget item from the beginning of the fiscal year through the end of the previous month,
2. Charges to each budget item for the previous month,
3. The total balance of each budget item,
4. The total balance of each budget item as it will be should the board/council approve claims currently under consideration, and
5. Any other information that the board may request.

Additionally, the Finance Department provides the City Council with a Cash Balance Report. This report details all funds and the ending balance for every bank account. The City Council utilizes this report to make decisions on spending.

Year-End Reporting

The City operates predominantly on a cash-basis principle throughout the year. At year-end, balance sheet accounts are reconciled and adjusted to the modified accrual basis of accounting.

At year-end the City prepares an annual financial report that includes:

1. Management's Discussion and Analysis (MD&A)
2. Basic Financial Statements
 - a. Government-Wide Financial Statements
 - i. Statement of Net Position
 - ii. Statement of Activities

- b. Governmental Funds Financial Statements
 - i. Balance Sheet
 - ii. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 - iii. Statement of Revenues, Expenditures and Changes in Fund Balance
 - iv. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities
 - c. Proprietary Funds Financial Statements
 - i. Statement of Net Position
 - ii. Statement of Revenues, Expenses, and Change in Fund Net Position
 - iii. Statement of Cash Flows
 - d. Notes to the Financial Statements
3. Requirement Supplementary Information

The City of Bay St. Louis is required by Section 21-35-31 of the Mississippi Code of 1972 to have an annual audit by independent certified public accountants.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-128, Audits of States and Local Governments.